

*Example 3.* (i) As of the end of 1985, Y, a calendar year taxpayer, had undiscounted unpaid losses of \$1,000,000 in the auto physical damage line of business for the 1985 accident year. The same reserve included undiscounted unpaid losses of \$600,000 at the end of 1986. During 1986, Y had loss payments of \$300,000 for this line of business. Under paragraph (c)(3)(i) of this section Y has a \$100,000 reserve weakening (\$600,000-(\$1,000,000-\$300,000)).

(ii) Under paragraph (e) of this section, the only effect of the reserve weakening is to reduce the amount that Y is required to include in income as a result of any strengthening of another reserve.

*Example 4.* The facts are the same as in *Example 1* except that X also has a \$100,000 reserve weakening for the 1985 accident year in its auto physical damage line of business. Under paragraph (b) of this section, the reserve discount factor for the reserve is 93.3400, the AY+1 factor from the auto physical damage series of discount factors published in Rev. Rul. 87-34. Thus, under paragraph (e) of this section, the amount that X is required to include in income in 1987 is reduced by \$6,660 ( $\$100,000 \times (100\% - 93.3400\%)$ ), resulting in an amount of \$47,761.40 ( $\$54,361.40 - \$6,660$ ).

*Example 5.* (i) At the end of 1985, Z, a calendar year taxpayer, had undiscounted unpaid losses of \$1,000,000 in the workers' compensation line of business for the 1984 accident year. On May 1, 1986, Z ceded \$130,000 of the reserve to an unrelated reinsurer. Z added \$250,000 to the 1985 year end reserve to take into account workers' compensation risks for the 1984 accident year that Z assumed in a reinsurance transaction on September 1, 1986. Z had \$230,000 of 1986 loss payments related to the 1984 accident year of its workers' compensation line, \$60,000 of which was attributable to the reinsurance assumed by Z. At the end of 1986, Z's reserve for the workers' compensation line for the 1984 accident year was \$1,100,000.

(ii) If only paragraph (c)(3)(i) of this section were applied, Z would have a \$460,000 reserve strengthening ( $\$1,100,000 - (\$1,000,000 - \$230,000 - \$130,000)$ ). Under paragraph (c)(3)(ii)(B) of this section, however, reserve strengthening does not include the \$250,000 that Z added to the reserve to take into account the reinsurance assumed. Also, none of the \$60,000 of loss payments attributable to the reinsurance assumed in 1986 are taken into account. Accordingly, Z has \$150,000 of reserve strengthening ( $\$460,000 - \$250,000 - \$60,000$ ). If this is Z's only reserve strengthening or weakening, then the amount that Z must include in income for 1987 under paragraph (e) of this section is \$40,771.05 ( $\$150,000 \times (100\% - 72.8193\%)$ ). The factor of 72.8193% is the AY+2 factor from the workers' compensation series of discount factors published in Rev. Rul. 87-34.

*Example 6.* (i) X was a calendar year taxpayer before July 1, 1986, the date on which X became a member of an affiliated group of corporations that files a consolidated return with a June 30 year end. Thus, X had two taxable years beginning in 1986: a short taxable year ending June 30, 1986, and a fiscal taxable year ending June 30, 1987.

(ii) As of the end of 1985, X had undiscounted unpaid losses of \$800,000 in the automobile liability line of business for the 1983 accident year. At the end of the short taxable year, X had reserves of \$700,000 of undiscounted unpaid losses, and on June 30, 1987, had reserves of \$600,000 of undiscounted unpaid losses. During the short taxable year, ending June 30, 1986, X's loss payments for this reserve were \$120,000. During the taxable year ending June 30, 1987, X's loss payments for this reserve were \$180,000. Under paragraph (c)(3)(i) of this section, X has a \$100,000 reserve strengthening: of which \$20,000 ( $\$700,000 - (\$800,000 - \$120,000)$ ) is attributable to the short taxable year ending June 30, 1986 and \$80,000 ( $\$600,000 - (\$700,000 - \$180,000)$ ) is attributable to the taxable year ending June 30, 1987.

(iii) The amount of reserve strengthening for this line of business is determined pursuant to the principles of paragraph (c)(2) of this section.

[T.D. 8433, 57 FR 40845, Sept. 8, 1992; 57 FR 48563, Oct. 27, 1992; 57 FR 57531, Dec. 4, 1992]

#### § 1.846-4 Effective date.

Sections 1.846-1 through Sections 1.846-3 apply to taxable years beginning after December 31, 1986.

[T.D. 8433, 57 FR 40847, Sept. 8, 1992]

#### § 1.848-0 Outline of regulations under section 848.

This section lists the paragraphs in §§ 1.848-1 through 1.848-3.

##### 1.848-1 Definitions and special provisions.

- (a) Scope and effective date.
- (b) Specified insurance contract.
  - (1) In general.
  - (2) Exceptions.
    - (i) In general.
    - (ii) Reinsurance of qualified foreign contracts.
  - (c) Life insurance contract.
  - (d) Annuity contract.
  - (e) Noncancellable accident and health insurance contract.
  - (f) Guaranteed renewable accident and health insurance contract.
  - (g) Combination contract.
    - (1) Definition.
    - (2) Treatment of premiums on a combination contract.
      - (i) In general.